

AQCIE/QFIC RESPONSE TO INFORMATION REQUEST #1 FROM THE RÉGIE DE L'ÉNERGIE (THE  
RÉGIE) REGARDING THE TRANSMISSION PROVIDER'S APPLICATION TO AMEND THE TRANSMISSION  
NETWORK UPGRADES POLICY

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1. Reference: (i) Exhibit C-AQCIE-CIFQ-0017, p. 6.

**Preamble:**

"Indeed, it would not be equitable for the Transmission Provider's current clients not to benefit from present-day revenue that might go towards future upgrades, according to the Transmission Provider's proposal. Intergenerational equity is also one of the fundamental principles of the upgrades policy approved by the Régie in Decision D-2002-095." [emphasis ours]

**Request:**

- 1.1 Please specify to which of the Transmission Provider's proposals the intervenor is referring.

**R 1.1 We are referring to the Transmission Provider's proposal to carry surplus revenues for the current year forward to cover upgrades for all customers, whether they are native load or point-to-point (PTP) customers. We point out that, in the case of PTP customers, only the Generator's revenues are taken into account, because it is currently the only one that can be subjected to the Transmission Provider's proposal.**

**More specifically, the expression "the Transmission Provider's proposal" used in the preamble also refers to the proposed methodology for calculating the Distributor's contribution and the proposed methodology for treating the upgrades policy as it relates to PTP customers. In both cases, the Transmission Provider is proposing to use surplus revenues to cover future capital expenditures. It is for that reason that we maintain that the proposal violates the principle of intergenerational equity, because the surplus present-day revenue will not be used to reduce the transmission costs for active customers when there is surplus transmission revenue.**

**This is important to note for the Distributor's customers, which would be deprived of significant surplus revenue from existing Generator PTP transmission service reservations. Given the nature of the potential upgrades to the Generator's network, i.e. connection of hydro generating stations located farther and farther afield (e.g. additional production capacity from existing stations located in the north,<sup>1</sup> Petit Mécatina, etc.), the Transmission Provider's proposal would result in surplus revenue related to the Generator's reservations not being converted into lower rates, but rather being applied to pay for the Generator's facilities.**

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<sup>1</sup> Docket R-3887-2014, Exhibit B-0025, response 3.2 to the Régie's IR #1, page 10.

2. Reference: (i) Exhibit C-AQCIE-CIFQ-0017, p. 8;  
(ii) Exhibit B-0016, Appendix 1 amended.

**Preamble:**

"As stipulated in its evidence, the Transmission Provider is applying this aggregation measure retroactively to 2006, which was the first year in which the Régie reserved decision on estimating the Distributor's contributions to these capital projects. The retroactive assessment allows the Transmission Provider to take into account incremental revenue from transformer capacity of all satellite substations and equipment used by customers connected directly to the network that have benefited from upgrades since 2006. That said, it would have been preferable to take into account all of the surplus transformer capacity of satellite substations, including those that have not been upgraded since 2006. By not taking into account all transformer capacity available to serve native load, the Transmission Provider is underestimating the incremental revenue from the Distributor in establishing its contribution to capital projects.

AQCIE and QFIC recommend that the Régie ensure that the Transmission Provider take into consideration all of the transformer capacity in its network, including the capacity of facilities that have not been upgraded since 2006, so that the Transmission Provider comes to an accurate estimate of the incremental revenue in determining the Distributor's contribution."

**Requests:**

- 2.1 Please provide an illustration of the intervenor's proposal, by applying it to the aggregation presented by the Transmission Provider in reference (ii).

**R 2.1 In our brief, we were referring to the fact that the Transmission Provider should ensure that the transformer capacity of all satellite substations, including those that were not upgraded after 2006, be taken into consideration. In our view, one way of taking into account all revenue from all transformer capacity associated with native load, including that of facilities that have not been upgraded since 2006, would be to use the data related to incremental overall demand assessed by the Distributor on an annual basis.**

**The principle behind our proposal is that only the capital expenditures related to new revenue should be subject to the Transmission Provider's contribution and only for the current year. As is the case of upgrades related to the needs of PTP customers, AQCIE and QFIC want to ensure that the capital expenditures associated with native load requirements, which receive a Transmission Provider contribution, are linked to new revenue to respect the principle of rate neutrality established in Decision D-2002-095.**

**Further, we also wish to ensure that the principle of intergenerational equity is respected. This principle cannot be respected unless the revenue for a given year is applied to capital expenditures for the same year. Indeed, any negative difference between new revenue and the capital costs for a given year should be covered by a contribution on the part of the customer who requires the network**

upgrade. Any positive difference, on the other hand, should be applied to surplus revenue and result in lower rates for all existing customers. The treatment of differences on a present-day basis means that the principles of rate neutrality and intergenerational equity are respected.

In that respect, we believe it is appropriate to adjust the Transmission Provider's maximum contribution for upgrades related to Distributor needs based on the actual overall increase in the Distributor's demand for a given year. Thereafter, the Transmission Provider will be able to determine whether a contribution from the Distributor is required to cover the cost of network upgrades should the costs be higher than the Transmission Provider's maximum contribution for the year. Should the Transmission Provider's contribution based on new revenue for a given year be higher than the cost of upgrades for the same year, the Transmission Provider's contribution would be adjusted to equal the cost of the upgrades for that year. Thus, any surplus revenue would be converted into a decrease in rates for all of the Transmission Provider's customers. This proposal appears to us to be clearly better than the Transmission Provider's proposal, which involves using the total transformer capacity of satellite substations after upgrades. We are of the view that the Transmission Provider's proposal would result in an overestimation of the revenue from the Distributor, because when the upgrades to the satellite substations are commissioned, only a portion of the capacity will be used by the Distributor's customers.

In conclusion, as explained in our brief, for the same reasons as the upgrades related to PTP customer needs, AQCIE and QFIC believe that the maximum Transmission Provider contribution for a given year should be based solely on the new revenue for that year. Any difference between new revenue and load growth capital expenditures should be treated in the same year. The difference would translate either into a contribution from the customer requiring the upgrade, in the case of a negative difference, or in reduced rates for all customers, in the case of a positive difference.

2.2 Please identify the source of the data that would be used for the purposes of applying the intervenor's proposal.

**R 2.2 The Transmission Provider's contribution for network upgrades to meet the Distributor's needs should be calculated using the data regarding the Distributor's demand filed as part of its rate cases. The calculation could be done only once the year is completed. Thus, the Transmission Provider will be able to determine whether there is a positive or negative difference between the Transmission Provider's contribution offered to the Distributor, based on its actual incremental consumption during the year in question, and the amounts invested to meet the Distributor's needs. Once the difference is established, the Transmission Provider will be able to either request a contribution from the Distributor, in the case of a negative difference, or allocate the excess revenue to the revenue requirement, which would result in a decrease in rates, in the case of a positive difference.**

2.3 Please specify whether the intervenor is recommending that its proposal be applied to the aggregations done calculated 2006. If so, please provide a rationale.

**R 2.3 As indicated in Response 2.1, we propose to apply any surplus revenue in a given year to decrease rates. Since it would be difficult to impose rate modifications retroactively for 2006 to 2014, AQCIE and QFIC do not propose to apply the proposal described in the previous responses to the aggregations calculated since 2006. Our proposal is forward looking. Accordingly, AQCIE and QFIC support the ACEFO proposal described in section 3.3 of the intervenor's brief for aggregations used only since 2006.<sup>2</sup> This proposal involves establishing the Transmission Provider contributions to the Distributor based on the incremental revenue related to the demand for native load and to apply the surplus revenue to the capital expenditures related to the Distributor's needs for subsequent years, only for the period from 2006 to 2014.**

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<sup>2</sup> Exhibit: C-ACEFO-0011, section 3.3, page 13 et seq.